

**REPORT OF THE AUDIT OF THE
MERCER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MERCER COUNTY FISCAL COURT

June 30, 2007

The Auditor of Public Accounts has completed the audit of the Mercer County Fiscal Court for fiscal year ended June 30, 2007. We have issued unqualified opinions on the governmental activities, each major fund, and aggregate remaining fund information of Mercer County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$8,349,501 as of June 30, 2007. Of this amount the fiscal court had unrestricted net assets of \$4,020,870.

Deposits:

The fiscal court's deposits were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$301,138 as of June 30, 2007

| <u>CONTENTS</u> | PAGE |
|--|------|
| INDEPENDENT AUDITOR’S REPORT | 1 |
| MERCER COUNTY OFFICIALS | 3 |
| STATEMENT OF NET ASSETS - MODIFIED CASH BASIS | 7 |
| STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS..... | 11 |
| BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS | 15 |
| STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS..... | 18 |
| RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS..... | 23 |
| NOTES TO FINANCIAL STATEMENTS | 25 |
| BUDGETARY COMPARISON SCHEDULES | 35 |
| NOTES TO REQUIRED SUPPLEMENTARY INFORMATION | 39 |
| COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS | 43 |
| COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS | 46 |
| REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS | 49 |
| APPENDIX A: | |
| CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM | |



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable John D. Trisler, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Mercer County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Mercer County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The County has chosen not to present the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the financial statements. The budgetary comparison information is not a required part of the basic financial statements, but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404

TELEPHONE 502.573.0050
FACSIMILE 502.573.0067
WWW.AUDITOR.KY.GOV

AN EQUAL OPPORTUNITY EMPLOYER M / F / D



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable John D. Trisler, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mercer County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated May 1, 2008, on our consideration of Mercer County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

May 1, 2008

MERCER COUNTY OFFICIALS

For The Year Ended June 30, 2007

Fiscal Court Members:

| | |
|-----------------|------------------------|
| John D. Trisler | County Judge/Executive |
| Ronnie Sims | Magistrate |
| J.B. Claunch | Magistrate |
| Larry Peyton | Magistrate |
| Donnie Webb | Magistrate |
| Wayne Jackson | Magistrate |
| Alvis Johnson | Magistrate |

Other Elected Officials:

| | |
|-------------------|----------------------------------|
| Douglas Greenburg | County Attorney |
| Cleo W. Baker Jr. | Jailer |
| Chris Horn | County Clerk |
| Rose Bishop | Circuit Court Clerk |
| Chris Kehrt | Sheriff |
| David Best | Property Valuation Administrator |
| Sonny Ransdell | Coroner |

Appointed Personnel:

| | |
|----------------|----------------------------|
| Gayle Horn | County Treasurer |
| Sandy Sanders | Occupational Tax Collector |
| Billy Humphrey | Road Supervisor |

THIS PAGE LEFT BLANK INTENTIONALLY

MERCER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

MERCER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

| | <u>Governmental Activities</u> |
|---|---|
| ASSETS | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 4,084,009 |
| Total Current Assets | <u>4,084,009</u> |
| Noncurrent Assets: | |
| Capital Assets - Net of Accumulated Depreciation | |
| Land and Land Improvements | 54,884 |
| Buildings | 1,705,750 |
| Equipment | 628,535 |
| Vehicles | 136,235 |
| Infrastructure | 1,740,088 |
| Total Noncurrent Assets | <u>4,265,492</u> |
| Total Assets | <u>8,349,501</u> |
| NET ASSETS | |
| Invested in Capital Assets, Net of Related Debt | 4,265,492 |
| Restricted For: | |
| Landfill | 63,139 |
| Unrestricted | 4,020,870 |
| Total Net Assets | <u><u>\$ 8,349,501</u></u> |

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

MERCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

MERCER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

| Functions/Programs | Expenses | Program Revenues Received | | | Net (Expenses) Revenues and Changes in Net Assets |
|--|---------------------|---------------------------|--|--|---|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government |
| | | | | | Governmental Activities |
| Governmental Activities: | | | | | |
| General Government | \$ 1,864,787 | \$ 4,879 | \$ 103,495 | \$ | \$ (1,756,413) |
| Protection to Persons and Property | 1,050,544 | 61,948 | 220,444 | 3,310 | (764,842) |
| General Health and Sanitation | 129,891 | 21,411 | 81,266 | | (27,214) |
| Social Services | 77,967 | | | 34,882 | (43,085) |
| Recreation and Culture | 225,277 | | 44,000 | | (181,277) |
| Transportation Facilities and Services | 7,167 | | | | (7,167) |
| Roads | 735,038 | | 1,015,538 | | 280,500 |
| Other Transportation Facilities and Services | 650 | | | | (650) |
| Road Facilities | 68,000 | | | | (68,000) |
| Capital Projects | 32,128 | | | | (32,128) |
| Total Governmental Activities | <u>\$ 4,191,449</u> | <u>\$ 88,238</u> | <u>\$ 1,464,743</u> | <u>\$ 38,192</u> | <u>(2,600,276)</u> |

General Revenues:

Taxes:

| | |
|-------------------------|-----------|
| Real Property Taxes | 711,401 |
| Personal Property Taxes | 50,025 |
| Motor Vehicle Taxes | 139,590 |
| Franchise Taxes | 157,956 |
| Occupational Taxes | 1,074,599 |
| Net Profit Taxes | 161,591 |
| Other Taxes | 94,525 |
| Excess Fees | 157,404 |
| Miscellaneous Revenues | 87,371 |
| Interest | 195,339 |

| | |
|--------------------------------------|---------------------|
| Total General Revenues and Transfers | <u>2,829,801</u> |
| Change in Net Assets | 229,525 |
| Net Assets - Beginning (Restated) | <u>8,119,976</u> |
| Net Assets - Ending | <u>\$ 8,349,501</u> |

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

MERCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

MERCER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

| | General Fund | Road Fund | Jail Fund | Payroll and Net Profit Tax Fund | Non- Major Funds | Total Governmental Funds |
|---------------------------|-----------------------------|----------------------|----------------------|--|---------------------------------|---|
| ASSETS | | | | | | |
| Cash and Cash Equivalents | \$ 1,227,324 | \$ 979,834 | \$ 459,980 | \$ 1,190,672 | \$ 226,199 | \$ 4,084,009 |
| Total Assets | <u>\$ 1,227,324</u> | <u>\$ 979,834</u> | <u>\$ 459,980</u> | <u>\$ 1,190,672</u> | <u>\$ 226,199</u> | <u>\$ 4,084,009</u> |
| FUND BALANCES | | | | | | |
| Reserved for: | | | | | | |
| Encumbrances | \$ 10,052 | \$ 8,198 | \$ 1,810 | \$ 507 | \$ 1,495 | \$ 22,062 |
| Landfill | | | | | 61,644 | 61,644 |
| Unreserved: | | | | | | |
| General Fund | 1,217,272 | | | | | 1,217,272 |
| Special Revenue Funds | <u> </u> | <u>971,636</u> | <u>458,170</u> | <u>1,190,165</u> | <u>163,060</u> | <u>2,783,031</u> |
| Total Fund Balances | <u>\$ 1,227,324</u> | <u>\$ 979,834</u> | <u>\$ 459,980</u> | <u>\$ 1,190,672</u> | <u>\$ 226,199</u> | <u>\$ 4,084,009</u> |

Reconciliation of Balance Sheet - Governmental Funds to the Statement of Net Assets:

| | |
|--|---------------------|
| Total Fund Balances | \$ 4,084,009 |
| Amounts Reported For Governmental Activities In The Statement | |
| Of Net Assets Are Different Because: | |
| Capital Assets Used in Governmental Activities Are Not Financial Resources | |
| And Therefore Are Not Reported in the Funds. | 6,116,369 |
| Accumulated Depreciation | <u>(1,850,877)</u> |
| Net Assets Of Governmental Activities | <u>\$ 8,349,501</u> |

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

MERCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

MERCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

| | General Fund | Road Fund | Jail Fund | Payroll and Net Profit Tax Fund |
|---|-------------------------|----------------------|----------------------|--|
| REVENUES | | | | |
| Taxes | \$ 1,226,060 | \$ | \$ | \$ 1,236,190 |
| Excess Fees | 84,841 | | | |
| Licenses and Permits | 4,879 | | | |
| Intergovernmental | 343,048 | 901,167 | 121,155 | |
| Charges for Services | 48,582 | | | |
| Miscellaneous | 54,651 | 6,571 | 816 | 1,217 |
| Interest | 43,517 | 45,088 | 22,922 | 74,054 |
| Total Revenues | <u>1,805,578</u> | <u>952,826</u> | <u>144,893</u> | <u>1,311,461</u> |
| EXPENDITURES | | | | |
| General Government | 664,532 | 7,201 | | 40,954 |
| Protection to Persons and Property | 359,490 | | 687,156 | |
| General Health and Sanitation | 123,529 | 3,217 | | |
| Social Services | 110,798 | | | |
| Recreation and Culture | 225,277 | | | |
| Transportation Facilities and Services | | 7,167 | | |
| Roads | | 1,273,678 | | |
| Other Transportation Facilities and Services | | 650 | | |
| Road Facilities | | 68,000 | | |
| Capital Projects | 32,128 | | | |
| Administration | 738,860 | 162,479 | 122 | 120 |
| Total Expenditures | <u>2,254,614</u> | <u>1,522,392</u> | <u>687,278</u> | <u>41,074</u> |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>(449,036)</u> | <u>(569,566)</u> | <u>(542,385)</u> | <u>1,270,387</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers From Other Funds | 990,527 | 700,000 | 475,000 | |
| Transfers To Other Funds | <u>(475,000)</u> | <u>(40,527)</u> | | <u>(1,750,000)</u> |
| Total Other Financing Sources (Uses) | <u>515,527</u> | <u>659,473</u> | <u>475,000</u> | <u>(1,750,000)</u> |
| Net Change in Fund Balances | 66,491 | 89,907 | (67,385) | (479,613) |
| Fund Balances - Beginning | 1,160,833 | 889,927 | 527,365 | 1,670,285 |
| Fund Balances - Ending | <u>\$ 1,227,324</u> | <u>\$ 979,834</u> | <u>\$ 459,980</u> | <u>\$ 1,190,672</u> |

The accompanying notes are an integral part of the financial statements.

MERCER COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

| Non- Major Funds | Total Governmental Funds |
|---------------------------------|---|
| \$ 161,878 | \$ 2,624,128 |
| | 84,841 |
| | 4,879 |
| 9,545 | 1,374,915 |
| | 48,582 |
| 33,385 | 96,640 |
| 1,408 | 186,989 |
| <u>206,216</u> | <u>4,420,974</u> |
| 212,669 | 925,356 |
| | 1,046,646 |
| | 126,746 |
| | 110,798 |
| | 225,277 |
| | 7,167 |
| | 1,273,678 |
| | 650 |
| | 68,000 |
| | 32,128 |
| 65 | 901,646 |
| <u>212,734</u> | <u>4,718,092</u> |
| <u>(6,518)</u> | <u>(297,118)</u> |
| 100,000 | 2,265,527 |
| | <u>(2,265,527)</u> |
| <u>100,000</u> | |
| 93,482 | (297,118) |
| 132,717 | 4,381,127 |
| <u>\$ 226,199</u> | <u>\$ 4,084,009</u> |

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

MERCER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

MERCER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

| | |
|--|--------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ (297,118) |
|--|--------------|

Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

| | |
|---|-------------------|
| Capital Outlay | 935,423 |
| Depreciation Expense | (403,428) |
| Capital Assets Disposed of, Net Book Value | <u>(5,352)</u> |
| Change in Net Assets of Governmental Activities | <u>\$ 229,525</u> |

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

| | | |
|----------|--|----|
| NOTE 1. | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES | 25 |
| NOTE 2. | DEPOSITS | 29 |
| NOTE 3. | OPERATING LEASES | 30 |
| NOTE 4. | CAPITAL ASSETS | 30 |
| NOTE 5. | INTERLOCAL COOPERATION AGREEMENT | 31 |
| NOTE 6. | SOLID WASTE LANDFILL..... | 31 |
| NOTE 7. | EMPLOYEE RETIREMENT SYSTEM..... | 31 |
| NOTE 8. | DEFERRED COMPENSATION | 31 |
| NOTE 9. | INSURANCE..... | 32 |
| NOTE 10. | SUBSEQUENT EVENTS | 32 |
| NOTE 11. | PRIOR PERIOD ADJUSTMENT | 32 |

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Mercer County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Mercer County does not have any component units.

C. Mercer County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Mercer County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Mercer County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Payroll and Net Profit Tax Fund – This fund is for the collection of local payroll taxes and net profit tax. The primary sources of revenue for this fund are payment of taxes for annual profit and payment of payroll taxes.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund and Landfill Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Payroll and Net Profit Tax Fund, and Landfill Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

| | Capitalization Threshold | Useful Life (Years) |
|-------------------------------------|-----------------------------|------------------------|
| Land Improvements | \$ 12,500 | 10-45 |
| Buildings and Building Improvements | \$ 25,000 | 10-60 |
| Machinery and Equipment | \$ 5,000 | 3-20 |
| Vehicles | \$ 5,000 | 3-20 |
| Infrastructure | \$ 10,000 | 10-40 |

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations and Joint Ventures

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Mercer County Fiscal Court: North Mercer Water District and the Mercer County Public Library.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Mercer County Fiscal Court: Mercer County Industrial Development Authority, Anderson/Dean Park Board, and Greater Harrodsburg/Mercer County Planning and Zoning Commission.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy with regard to custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2007, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the county's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$301,138 as of June 30, 2007

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 3. Operating Lease

Mercer County was committed to a lease agreement with IOS Capital for a copier. The agreement requires a monthly payment of \$124 for 48 months to be completed in March 2008. The total balance of the agreement was \$1,116 as of June 30, 2007.

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

| | Reporting Entity | | | |
|---|----------------------|------------|------------|-------------------|
| | Beginning Balance | Increases | Decreases | Ending Balance |
| <u>Governmental Activities:</u> | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land and Land Improvements | \$ 54,884 | \$ | \$ | \$ 54,884 |
| Total Capital Assets Not Being Depreciated | 54,884 | | | 54,884 |
| Capital Assets, Being Depreciated: | | | | |
| Buildings | 2,089,482 | 131,762 | | 2,221,244 |
| Equipment | 891,316 | 73,649 | (5,975) | 958,990 |
| Vehicles | 658,668 | 58,844 | (50,392) | 667,120 |
| Infrastructure | 1,542,963 | 671,168 | | 2,214,131 |
| Total Capital Assets Being Depreciated | 5,182,429 | 935,423 | (56,367) | 6,061,485 |
| Less Accumulated Depreciation For: | | | | |
| Buildings | (461,322) | (54,172) | | (515,494) |
| Equipment | (252,660) | (83,275) | 5,480 | (330,455) |
| Vehicles | (529,140) | (47,280) | 45,535 | (530,885) |
| Infrastructure | (255,342) | (218,701) | | (474,043) |
| Total Accumulated Depreciation | (1,498,464) | (403,428) | 51,015 | (1,850,877) |
| Total Capital Assets, Being Depreciated, Net | 3,683,965 | 531,995 | (5,352) | 4,210,608 |
| Governmental Activities Capital Assets, Net | \$ 3,738,849 | \$ 531,995 | \$ (5,352) | \$ 4,265,492 |

Depreciation expense was charged to functions of the primary government as follows:

| | |
|--|-------------------|
| <u>Governmental Activities:</u> | |
| General Government | \$ 37,785 |
| Protection to Persons and Property | 65,283 |
| General Health and Sanitation | 3,145 |
| Social Services | 30,931 |
| Roads, Including Depreciation of General Infrastructure Assets | 266,284 |
| Total Depreciation Expense - Governmental Activities | <u>\$ 403,428</u> |

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Interlocal Cooperation Agreement

Mercer County has entered into an Interlocal Cooperation Agreement with Boyle County to share in the cost of a regional jail facility. The facility is owned by Boyle County. Mercer County agreed to pay a percentage, not below 35%, not to exceed 50%, of the yearly costs in exchange for the use of the facility for Mercer County prisoners.

Note 6. Solid Waste Landfill

Mercer County Fiscal Court (the County) operated a landfill, which ceased operations on June 30, 1992. The County initiated closure operations in April 1991. Closure costs were estimated to be \$52,700 and the County completed the steps necessary to close the landfill. The County believes that it has met all federal, state, and local laws and regulations in regard to the closure of the landfill. Postclosure care consists primarily of groundwater monitoring and landscape maintenance. The County is required to file reports with the appropriate regulatory agencies regarding the findings and groundwater monitoring activities. Postclosure costs are included in the Landfill Fund and for fiscal year ended June 30, 2007, Mercer County expended approximately \$45,000 for postclosure costs. Future costs are estimated to be the same as what was spent in this fiscal year and have been budgeted in the Landfill fund. Inflation, deflation, technology, or applicable laws and regulations could affect these costs.

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

The Mercer County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 8. Deferred Compensation (Continued)

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2007, Mercer County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Subsequent Events

A. Revenue Bonds Anticipation Notes

On March 1, 2008, the Mercer County Public Properties Corporation issued \$4,000,000 of First Mortgage Revenue Bond Anticipation Notes. The proceeds from this issuance will provide interim financing for the cost of development, acquisition and construction of a Justice Center, and will pay the cost of issuance incurred with respect to the issuance of the Notes.

B. Loan

On February 27, 2008, the Mercer County Fiscal Court borrowed \$585,938 to purchase a commercial building for future office space. The note is due on or before June 27, 2008.

C. Financing Obligation

In October 2007 Mercer County Fiscal Court entered into a five-year lease agreement with the Kentucky Association of Counties Leasing Trust, in the amount of \$315,000, for the purchase of hospital equipment for use by James B. Haggin Memorial Hospital. Mercer County Fiscal Court and James B. Haggin Memorial Hospital entered into a sublease, with the hospital agreeing to make all payments required by the lease agreement.

Note 11. Prior Period Adjustment

The June 30, 2006 net asset balance has been restated to reflect capital assets previously omitted from the County's capital asset schedules. A forklift with a historical cost of \$12,000 and accumulated depreciation of \$10,262, as of June 30, 2006, was omitted, and construction in progress, in the amount of \$302,780, for the Adult Day Care Center, which was finished in fiscal year ended June 30, 2007, was omitted. The net effect is an increase of the June 30, 2006 net asset balance in the amount of \$304,518.

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2007

| | GENERAL FUND | | | |
|---|---------------------|--------------------|----------------------------------|--|
| | Budgeted Amounts | | Actual | Variance with |
| | Original | Final | Amounts, (Budgetary Basis) | Final Budget Positive (Negative) |
| REVENUES | | | | |
| Taxes | \$ 1,129,000 | \$ 1,129,000 | \$ 1,226,060 | \$ 97,060 |
| In Lieu Tax Payments | 2,000 | 2,000 | | (2,000) |
| Excess Fees | 100,350 | 100,350 | 84,841 | (15,509) |
| Licenses and Permits | | | 4,879 | 4,879 |
| Intergovernmental Revenue | 2,513,830 | 2,513,830 | 343,048 | (2,170,782) |
| Charges for Services | 52,500 | 52,500 | 48,582 | (3,918) |
| Miscellaneous | 48,000 | 48,000 | 54,651 | 6,651 |
| Interest | 31,000 | 31,000 | 43,517 | 12,517 |
| Total Revenues | <u>3,876,680</u> | <u>3,876,680</u> | <u>1,805,578</u> | <u>(2,071,102)</u> |
| EXPENDITURES | | | | |
| General Government | 783,800 | 808,041 | 664,532 | 143,509 |
| Protection to Persons and Property | 390,610 | 426,376 | 359,490 | 66,886 |
| General Health and Sanitation | 386,700 | 397,199 | 123,529 | 273,670 |
| Social Services | 120,650 | 129,326 | 110,798 | 18,528 |
| Recreation and Culture | 160,200 | 227,200 | 225,277 | 1,923 |
| Capital Projects | 2,012,000 | 2,012,000 | 32,128 | 1,979,872 |
| Administration | 1,214,061 | 1,067,879 | 738,860 | 329,019 |
| Total Expenditures | <u>5,068,021</u> | <u>5,068,021</u> | <u>2,254,614</u> | <u>2,813,407</u> |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>(1,191,341)</u> | <u>(1,191,341)</u> | <u>(449,036)</u> | <u>742,305</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers From Other Funds | 1,162,061 | 1,162,061 | 990,527 | (171,534) |
| Transfers To Other Funds | <u>(570,720)</u> | <u>(570,720)</u> | <u>(475,000)</u> | <u>95,720</u> |
| Total Other Financing Sources (Uses) | <u>591,341</u> | <u>591,341</u> | <u>515,527</u> | <u>(75,814)</u> |
| Net Changes in Fund Balance | (600,000) | (600,000) | 66,491 | 666,491 |
| Fund Balance - Beginning | <u>600,000</u> | <u>600,000</u> | <u>1,160,833</u> | <u>560,833</u> |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 1,227,324</u> | <u>\$ 1,227,324</u> |

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

| | ROAD FUND | | | |
|---|-------------------------|------------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental Revenue | \$ 1,205,114 | \$ 1,215,360 | \$ 901,167 | \$ (314,193) |
| Miscellaneous | 11,000 | 11,000 | 6,571 | (4,429) |
| Interest | 7,200 | 7,200 | 45,088 | 37,888 |
| Total Revenues | <u>1,223,314</u> | <u>1,233,560</u> | <u>952,826</u> | <u>(280,734)</u> |
| EXPENDITURES | | | | |
| General Government | 14,700 | 14,700 | 7,201 | 7,499 |
| General Health and Sanitation | 21,000 | 21,000 | 3,217 | 17,783 |
| Transportation Facilities and Services | 9,000 | 9,016 | 7,167 | 1,849 |
| Roads | 1,477,075 | 1,789,486 | 1,273,678 | 515,808 |
| Other Transportation Facilities and Services | 700 | 700 | 650 | 50 |
| Capital Projects | 90,000 | 90,000 | 68,000 | 22,000 |
| Administration | 302,250 | 179,995 | 162,479 | 17,516 |
| Total Expenditures | <u>1,914,725</u> | <u>2,104,897</u> | <u>1,522,392</u> | <u>582,505</u> |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | <u>(691,411)</u> | <u>(871,337)</u> | <u>(569,566)</u> | <u>301,771</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers From Other Funds | 131,938 | 131,938 | 700,000 | 568,062 |
| Transfers To Other Funds | <u>(40,527)</u> | <u>(40,527)</u> | <u>(40,527)</u> | |
| Total Other Financing Sources (Uses) | <u>91,411</u> | <u>91,411</u> | <u>659,473</u> | <u>568,062</u> |
| Net Changes in Fund Balance | (600,000) | (779,926) | 89,907 | 869,833 |
| Fund Balance - Beginning | <u>600,000</u> | <u>779,926</u> | <u>889,927</u> | <u>110,001</u> |
| Fund Balance - Ending | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 979,834</u> | <u>\$ 979,834</u> |

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

| JAIL FUND | | | | |
|---|------------------|------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental Revenue | \$ 102,300 | \$ 102,300 | \$ 121,155 | \$ 18,855 |
| Charges for Services | 10,000 | 10,000 | | (10,000) |
| Miscellaneous | 1,000 | 1,000 | 816 | (184) |
| Interest | 15,500 | 15,500 | 22,922 | 7,422 |
| Total Revenues | 128,800 | 128,800 | 144,893 | 16,093 |
| EXPENDITURES | | | | |
| Protection to Persons and Property | 704,320 | 715,618 | 687,156 | 28,462 |
| Administration | 35,200 | 23,902 | 122 | 23,780 |
| Total Expenditures | 739,520 | 739,520 | 687,278 | 52,242 |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | (610,720) | (610,720) | (542,385) | 68,335 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers From Other Funds | 570,720 | 570,720 | 475,000 | (95,720) |
| Transfers To Other Funds | | | | |
| Total Other Financing Sources (Uses) | 570,720 | 570,720 | 475,000 | (95,720) |
| Net Changes in Fund Balance | (40,000) | (40,000) | (67,385) | (27,385) |
| Fund Balance - Beginning | 40,000 | 40,000 | 527,365 | 487,365 |
| Fund Balance - Ending | \$ 0 | \$ 0 | \$ 459,980 | \$ 459,980 |

MERCER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

| PAYROLL AND NET PROFIT TAX FUND | | | | |
|---|-------------------------|--------------|--|---|
| | Budgeted Amounts | | Actual Amounts, (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 1,010,000 | \$ 1,010,000 | \$ 1,236,190 | \$ 226,190 |
| Miscellaneous | | | 1,217 | 1,217 |
| Interest | 30,000 | 30,000 | 74,054 | 44,054 |
| Total Revenues | 1,040,000 | 1,040,000 | 1,311,461 | 271,461 |
| EXPENDITURES | | | | |
| General Government | 48,700 | 48,973 | 40,954 | 8,019 |
| Administration | 20,500 | 20,227 | 120 | 20,107 |
| Total Expenditures | 69,200 | 69,200 | 41,074 | 28,126 |
| Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses) | 970,800 | 970,800 | 1,270,387 | 299,587 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers From Other Funds | | | | |
| Transfers To Other Funds | (1,378,222) | (1,378,222) | (1,750,000) | (371,778) |
| Total Other Financing Sources (Uses) | (1,378,222) | (1,378,222) | (1,750,000) | (371,778) |
| Net Changes in Fund Balances | (407,422) | (407,422) | (479,613) | (72,191) |
| Fund Balances - Beginning | 407,422 | 407,422 | 1,670,285 | 1,262,863 |
| Fund Balances - Ending | \$ 0 | \$ 0 | \$ 1,190,672 | \$ 1,190,672 |

MERCER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

THIS PAGE LEFT BLANK INTENTIONALLY

**MERCER COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2007

MERCER COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

| | LGEA Fund | Landfill Fund | Total Non-Major Governmental Funds |
|---------------------------|----------------------|--------------------------|---|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 163,060 | \$ 63,139 | \$ 226,199 |
| Total Assets | <u>\$ 163,060</u> | <u>\$ 63,139</u> | <u>\$ 226,199</u> |
| FUND BALANCES | | | |
| Reserved for: | | | |
| Encumbrances | \$ | 1,495 | \$ 1,495 |
| Landfill | | 61,644 | 61,644 |
| Unreserved: | | | |
| Special Revenue Funds | <u>163,060</u> | | <u>163,060</u> |
| Total Fund Balances | <u>\$ 163,060</u> | <u>\$ 63,139</u> | <u>\$ 226,199</u> |

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

MERCER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007

MERCER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

| | LGEA Fund | Landfill Fund | Total Non-Major Governmental Funds |
|---|----------------------|--------------------------|---|
| REVENUES | | | |
| Intergovernmental | \$ 114,370 | \$ 47,508 | \$ 161,878 |
| Charges for Services | | 9,545 | 9,545 |
| Miscellaneous | | 33,385 | 33,385 |
| Interest | 1,042 | 366 | 1,408 |
| Total Revenues | <u>115,412</u> | <u>90,804</u> | <u>206,216</u> |
| EXPENDITURES | | | |
| General Health and Sanitation | | 212,669 | 212,669 |
| Administration | | 65 | 65 |
| Total Expenditures | | <u>212,734</u> | <u>212,734</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>115,412</u> | <u>(121,930)</u> | <u>(6,518)</u> |
| Other Financing Sources (Uses) | | | |
| Transfers From Other Funds | | 100,000 | 100,000 |
| Total Other Financing Sources (Uses) | | <u>100,000</u> | <u>100,000</u> |
| Net Change in Fund Balances | 115,412 | (21,930) | 93,482 |
| Fund Balances - Beginning | 47,648 | 85,069 | 132,717 |
| Fund Balances - Ending | <u>\$ 163,060</u> | <u>\$ 63,139</u> | <u>\$ 226,199</u> |

The accompanying notes are an integral part of the financial statements.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John D. Trisler, Mercer County Judge/Executive
Members of the Mercer County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated May 1, 2008. Mercer County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mercer County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mercer County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Mercer County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Mercer County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

May 1, 2008

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

MERCER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2007**

Appendix A

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MERCER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2007

The Mercer County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



John D. Trisler
County Judge/Executive



Gayle Horn
County Treasurer